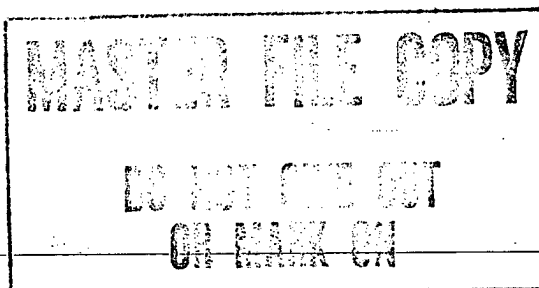




Directorate of  
Intelligence

~~Confidential~~

25X1



# Canada: Can the Progressive Conservatives Win?

25X1

An Intelligence Assessment

~~Confidential~~

EUR 84-10095  
CR 84-10631  
May 1984

Copy 322

**Page Denied**



**Directorate of  
Intelligence**

**Confidential**

25X1

# Canada: Can the Progressive Conservatives Win?

25X1

**An Intelligence Assessment**

This paper was prepared by [redacted]  
Office of European Analysis, [redacted] Office  
of Central Reference. Comments and queries are  
welcome and may be directed to the Chief, West  
European Division, EURA, [redacted]

25X1

25X1

25X1

**Confidential**

*EUR 84-10095*

*CR 84-10631*

*May 1984*

Confidential

25X1

**Canada: Can the  
Progressive Conservatives Win?**

25X1

**Key Judgments**

*Information available  
as of 10 May 1984  
was used in this report.*

After enjoying a lead of up to 39 percentage points in Gallup Polls over the past year, Canada's Progressive Conservative (Tory) Party now finds itself 6 percentage points behind the incumbent Liberals. The Tories have been plagued by highly publicized intraparty bickering involving regional rivalries and differing philosophical approaches to social and economic policy. Internal strife is making it difficult for the Tories to convince the electorate that they constitute a credible "government-in-waiting," and, indeed, is the main reason why the party has been in opposition for all but nine months since 1963.

25X1

In the early months following his election as Tory leader last June, Brian Mulroney, by force of personality and the rank and file's hunger for power, kept the party's factions quiet and established a facade of unity. In November, however, dissension in the Tories' federal parliamentary contingent resurfaced—particularly over the constitutional protection of French-language rights in Manitoba and the maintenance of federal social welfare programs. In our opinion, party infighting probably will expand under the pressure of the coming election campaign.

25X1

Prime Minister Trudeau's decision to retire as Liberal leader also compounds Tory problems. The Liberals are now embarked on a hotly contested race to choose Trudeau's successor. The race is likely to dominate the media between now and the Liberal leadership convention in June. The Liberals seem certain to emerge from the race not only with a new leader, but also with a reinvigorated public image. Moreover, the Liberal government will set the date of the next election and will time it for the moment polls show most advantageous.

25X1

If, in spite of themselves, the Conservatives win the next election, we do not believe that Canadian policy toward the United States would change substantially. The Tories would, in our opinion, tone down the nationalist tenor of current Liberal economic policy. They would, however, remain committed to developing Canada's resource-based economy and ready—albeit more reluctantly than Trudeau's government—to intervene in the domestic economy to effect that end. In addition, although the Tories probably would be more rhetorically supportive of US foreign policy, they would, in our opinion, keep themselves at arm's length from Washington and pursue an external policy that was, in substance, not markedly different from that of the Liberals.

25X1

Confidential

EUR 84-10095

CR 84-10631

May 1984

**Confidential**

25X1

**Contents**

	<i>Page</i>
Key Judgments	iii
Introduction	1
Fragile Unity at Best	1
Competing Provincial Demands	2
Western Alienation	2
A Foothold in French Canada?	3
Ontario: Key to Victory	4
The Liberals: On the Upswing?	6
Prospects: Victory or Defeat?	8
Implications for the United States	9

25X6

**Confidential**

Confidential

25X1

## Canada: Can the Progressive Conservatives Win?

25X1

### Introduction

The political prospects of Canada's Progressive Conservative Party rarely have seemed more promising than they did late last year. In the polls they were tens of percentage points ahead of Prime Minister Trudeau's Liberal Party; they had a fresh, dynamic leader in Brian Mulroney, who seemed to have a fair chance of improving his party's showing in Ontario and even in Quebec, the Liberals' stronghold; and the prospect of victory—in elections, which nearly every political observer believed would be held in the fall of 1984—had partly overcome the Tories' pervasive factionalism.

Mulroney also acted to mollify former rivals and those Tories who supported his predecessor, Joe Clark. He appointed 11 of Clark's former cabinet ministers to his shadow cabinet.<sup>1</sup> Eight of the 11 had supported Clark's reelection bid and two—John Crosbie and David Crombie—had sought the leadership themselves. Mulroney has given 87 of the 100 Tory MPs some extraparliamentary responsibility; Clark made only 60 such appointments during his tenure. Moreover, Mulroney has stated publicly that once in power he will give about 3,000 patronage jobs to Tories who work in the coming campaign. Clark was faulted by many Tories for failing to dispense patronage after their election victory in 1979.<sup>2</sup>

25X1

25X1

Since then, the outlook for the party has become much cloudier. We think elections still are likely next fall, but the chances have risen that the Tories will once again snatch defeat from the jaws of victory. The Liberals have now erased the Tories' margin in the polls, and the old fissures have reappeared in the Tory Party—fissures that seem to follow faultlines in the larger Canadian polity. This paper examines the party's current prospects and the implications for Ottawa's relations with the United States.

Although these moves will promote party unity, we believe factionalism will persist. One important fissure, for example, that divides the Tory leader from his parliamentary delegation is a perception among Tory MPs that the leader makes policy without consulting his supporters in Parliament. A report prepared last year by a Conservative MP noted that most of his colleagues believed the leader had too much discretionary power and that their views had been ignored for the past decade.

25X1

25X1

### Fragile Unity at Best

The Tories are a perennially fractious party, and the most pressing task facing Brian Mulroney when he became leader last June was to reduce factionalism and concentrate authority in his own hands. He has centered policymaking in the Office of the Leader of the Opposition rather than at party headquarters where other party leaders could more easily bring their influence to bear. In addition, Mulroney only recently lifted a ban on Tory parliamentary nominations that he imposed last October ostensibly to allow more time to find the most talented individuals. We believe, however, that Mulroney used the period to bring more of his supporters into the party and thus have greater influence on the selection of candidates.

In addition, Mulroney's credibility has been undermined publicly on several occasions by Tory finance critic John Crosbie's calls for a reexamination of the universality of Canada's social welfare system and consideration of the use of means tests. Mulroney repeatedly has said that social benefits are the birthright of all Canadians, and his government would

<sup>1</sup> In parliamentary systems, the members of the opposition parties' shadow cabinets are assigned responsibility by their leaders for criticizing specific areas of government policy. The Finance Critic, for example, is designated to keep track of and critique in Parliament the policies sponsored and administered by the government's finance minister.

<sup>2</sup> Clark's government was in power from May 1979 to February 1980.

25X1

25X1

25X1

Confidential

Confidential

consider them a "sacred obligation." Crosbie's statements, which flagrantly disregard his leader's public position, underscore the existence of factionalism in the party that not even the prospect of an electoral victory has been able to eradicate. [REDACTED]

### Competing Provincial Demands

Another serious problem for the Tories, in our view, is federal-provincial relations. In the Canadian political system the federal prime minister and the provincial premiers are natural antagonists, largely because of the way constitutional powers are divided between Ottawa and the provinces. Under Trudeau, federal-provincial relations have been characterized by confrontations over constitutional reform and national energy policy. Since the mid-1970s, however, there have been no Liberal provincial governments in Canada, and, therefore, Trudeau has been able to promote federal positions without hurting provincial Liberal organizations. Mulroney, on the other hand, would have to take account of the seven of 10 provincial premiers who are Conservative and are principally concerned with fulfilling the demands of their local constituents rather than devising policies in the "national interest."<sup>3</sup> Although Mulroney has pledged to be conciliatory toward the provinces, he nonetheless believes, according to his book *Where I Stand*, that Ottawa must be "empowered at all times to preserve the security and integrity of the nation." [REDACTED]

In the preelection period Mulroney and the Conservative provincial premiers will present a united front, publicly. In private, however, Mulroney probably will have a troubled relationship with his provincial Tory brethren. Aside from policy differences, several premiers command national attention and are likely to resent the focus of Conservatives shifting to Ottawa. In our judgment, Alberta's Lougheed and Ontario's Davis rank behind only Pierre Trudeau as Canada's

<sup>3</sup> Conservative provincial premiers in May 1984 included William Davis in Ontario, Richard Hatfield in New Brunswick, Brian Peckford in Newfoundland, John Buchanan in Nova Scotia, James Lee in Prince Edward Island, Grant Devine in Saskatchewan, and Peter Lougheed in Alberta. In addition, William Bennett heads a government in British Columbia that is Social Credit in name but Conservative in style. [REDACTED]

ablest politicians; Mulroney, on the other hand, won his first election last September. The Tory premiers are likely to make conflicting demands on Mulroney that he will be unable to reconcile and, as a result, their provincial organizations may not provide the federal party with aggressive support in the next election. [REDACTED]

### Western Alienation

Although an important part of the Tories' electoral base is in Western Canada—the party holds 48 of 76 federal seats in Manitoba, Alberta, Saskatchewan, and British Columbia—the region is dissatisfied with the party's policy orientation. The West, as a region, is alienated from the rest of Canada. Westerners believe federal policy is designed to benefit Central Canada—Ontario and Quebec—where population and industry are concentrated, by keeping the West a hinterland supplying raw materials to Central Canada and serving as consumers for its manufactures. Westerners, however, have supported Mulroney, despite his being preeminently a Central Canadian, because they sense he may be able to defeat the Liberals. [REDACTED]

The most dangerous dilemma facing Mulroney and the federal Tories in their relationship with the West lies in the area of national energy policy. Press reports indicate anger still simmers in the region over what Westerners see as lost economic activity due to the Liberals' National Energy Program (NEP). The West's animosity toward the NEP, in fact, probably would have caused an east-west confrontation at the Tory leadership convention last June—with Ontario supporting the lower-than-world-level domestic oil prices mandated by the NEP, and Alberta demanding world prices—were it not for the current international oil glut and the fall of world oil prices. [REDACTED]

Westerners expect the Conservatives to end the federally administered oil-pricing regime. They would be pleased if the price of all oil produced in Canada rose to world levels. Such a move, however, would alienate consumers in Central Canada. The Tories are aware from bitter experience that they cannot afford to

Confidential

---

### *The West Versus the Center*

*Ted Byfield, publisher of the Alberta Report, commenting on a recent visit to Calgary by Ontario Conservative Premier William Davis and several of his cabinet ministers:*

What we must therefore infer from the Ontario mission to the West, after you endure all of the pointless platitudes and meaningless talk and note what they're doing is what they have been doing all along, is that Central Canada is determined to preserve through the 21st century the same game they have played throughout the 20th. What we have to convey to them in no uncertain terms is that this game has ended. We want change, fundamental constitutional change, particularly in the Senate, that will render impossible forever such outrages as the National Energy Program. In other words, we either want into Canada, or we want out. The day when we will go on meekly accepting colonial status is over and gone. [redacted]

---

antagonize these voters, particularly the Ontarians.<sup>4</sup> The Clark government's 1979 plan to increase domestic oil prices was the decisive factor in its fall and in the widespread defection of Ontario voters to Liberal ranks in the ensuing election. Although Mulroney describes the NEP as an "unrelieved disaster," he has promised only that Canadian prices will "reflect" world prices. [redacted]

Another area of confrontation between the federal Tories and the Westerners lies in the constitutional protection of minority language rights at the provincial level. Mulroney is a passionate advocate of bilingualism as the nation's moral responsibility and a practical means of keeping Quebec in Canada. Many Western Tories, however, regard bilingualism as a

<sup>4</sup> Because of the Tories' electoral impotence in French Canada, the importance to the Tories of Ontario and, indeed, all of English Canada, cannot be overemphasized. The *Financial Post* has estimated that the Conservatives probably need about 45 percent of the vote in English Canada just to elect a minority government. In 1980, for example, the party won 40 percent of the vote outside Quebec; the Liberals, only 35 percent; and yet the Liberals were able to form a majority government. [redacted]

costly Liberal whim.<sup>5</sup> In Manitoba, for example, the provincial Tories recently blocked the plans of the government in Winnipeg to protect French-language rights constitutionally. If Western views on bilingualism came to predominate in the party, however, we believe the Tories' electoral prospects in Quebec would be destroyed. [redacted]

The Conservatives are thus in a quandary: siding with the West endangers crucial votes in Central Canada, while allying with the Center could reduce Western support. On balance, we believe the Conservatives will make energy policy to meet political necessities in Ontario, not to satisfy the West. Tory policy, for example, probably will require federal involvement in oil pricing—the aspect of the NEP most resented by the West. We also believe Mulroney will continue to support the protection of minority language rights. Conservative strategists may reckon those policies will not cost the Tories much in the West because the Liberals are anathema there. In a close election, however, the loss of even a few seats in the region could be critical. [redacted]

### **A Foothold in French Canada?**

Mulroney won the leadership partly because, with his commitment to bilingualism, he was perceived capable of breaking the Liberals' stranglehold in Quebec—the Liberals now hold 74 of the province's 75 federal parliamentary seats. We believe the odds are against the Tories because polls show they are still remarkably unpopular throughout French Canada. In the general election in 1980, the Liberals won 100 of the 102 constituencies in Canada with electorates at least 10 percent French speaking. This total put the Liberals two-thirds of the way to a majority in the 282-seat Parliament.<sup>6</sup> [redacted]

<sup>5</sup> Ontario's political scene has recently been disturbed by the Conservative provincial government's refusal to guarantee language rights in its Constitution for Ontario's 500,000 Francophones. Mulroney's probable support for such a guarantee in Ontario could cause some Tories there to stay home in the next election; his failure to do so, on the other hand, would further weld the province's Francophones, and its large ethnic communities in metropolitan Toronto, to the Liberal Party. (C NF)

<sup>6</sup> The national results of the 1979 election were Liberal—114 seats; Conservative—136 seats; New Democrat—26 seats, and the national results of the 1980 election were Liberal—147 seats; Conservatives—103 seats; and New Democrat—32 seats. [redacted]



Mulroney's election, however, did spark new interest in the Tories in Quebec; party membership rose from 50,000 to 75,000 between last September and March. Mulroney is a staunch opponent of Rene Levesque's separatist Parti Quebecois (PQ) and its goal of independence. He has promised Canadians that if Quebec "gets rid of the PQ" he will negotiate political peace with the province "in a minute." He has even equated his position on separatism with Prime Minister Trudeau's; Levesque emphasizes this similarity for PQ supporters, who generally detest Trudeau, by dubbing Mulroney a "mini-Trudeau."

Mulroney's antiseparatism, however, probably has failed to build a Tory bridge to the pervasive nationalist—as opposed to separatist—sentiment in Quebec. While recent polls indicate support for independence is ebbing, they also show most Quebecers believe their province merits a privileged place in the Canadian political system. We believe that if the Tories fail to accommodate Quebec nationalism, many nationalists will switch to the new PQ-supported Parti Nationaliste, reluctantly support the Liberals, or simply not vote in the next election. Any of these results almost certainly would preserve the Liberal hegemony in Quebec.

Even if the Tories make an effort to attract the nationalists in Quebec, however, they will face further difficulties because of their belief in decentralization and desire to disengage Ottawa from intimate involvement in the economy. In contrast, polls show Quebecers want federal political parties to be power brokers, able to reconcile conflicting regional interests; they therefore expect the central government to be powerful and interventionist. In addition, Quebecers tend to vote pragmatically in federal elections after ascertaining what each party will provide in terms of roads, schools, airports, and the protection of minority rights. Since 1949, Quebecers have perceived the Liberals as offering more than the Tories (see table 1), and we think that this perception will endure at least through the next election and probably will prevent the Tories from winning more than 10 to 15 seats. In our opinion, the lack of a considerable Quebec representation in the Conservative parliamentary contingent and cabinet after a victory would be disastrous for the party and threatening to Canadian unity.

**Table 1**  
**Federal Election Results in Quebec,**  
**1949-80**  
**(Percent of Vote <sup>a</sup> and Number of Seats)**

Election Year	Federal Seats Available	Liberal Party		Conservative Party	
		Share of the vote (percent)	Number of Seats	Share of the Vote (percent)	Number of Seats
1949	73	60	68	25	2
1953	75	61	66	20	4
1957	75	58	62	31	9
1958	75	46	25	50	50
1962	75	40	35	30	14
1963	75	46	47	20	8
1965	75	46	56	21	8
1968	74	53	56	21	4
1972	74	49	56	17	2
1974	74	54	60	21	3
1979	75	62	67	14	2
1980	75	68	74	13	1

<sup>a</sup> All percentages are rounded to the nearest whole number, and totals do not account for votes cast for third parties.

#### Ontario: Key to Victory

Ontario is Canada's most populous and industrialized province, and its voters, in our opinion, are likely to determine the outcome of the next federal election. Ontario contains the largest number of federal parliamentary constituencies (95), more than one-third of the total. Because of Ontario's concentration of industry and population, its voters probably are more sensitive to changes in federal economic and energy policies than those in other provinces. The Tories can usually rely on the province's rural voters, but an election is won or lost in urban southern Ontario. In particular, a party must appeal to the electorate in metropolitan Toronto—an area of more than 3 million inhabitants—where there are sizable low income and ethnic communities.

Confidential

---

### ***Ontario's Pivotal Role in Federal Elections***

*Ralph Hedlin, columnist for the Alberta Report, on the historic importance of Ontario's votes in determining the outcome of federal elections, the consequent tendency of federal political parties to tailor their policies to appeal to voters in that province, and the West's despair over the situation:*

On the record of Canadian elections, parties that win a majority of the Ontario federal ridings will probably form the national government. Certainly a party that fails to win in Ontario is most unlikely to get a majority of seats in Canada. In the final analysis Ontario voters give or withhold national power. The fact that Ontario is relatively benign is the only factor that enables the public administration of Canada to limp along as well as it does.

The voters of Ontario and Quebec electorally determine the economic destiny of residents of the provinces of Outer Canada . . . . This becomes dangerous when there is a real conflict between regions. Is there a political party so foolish as to take up the Alberta cause in a federal election and accept the risk of offending voters who control 95 (the number of federal seats in Ontario)—some 34 percent—of the 282 seats in the House of Commons?

National political campaign plans are always and inevitably built around a best estimate as to the programs and policies most likely to appeal to the voters of Ontario. The practice works. Prime Minister Trudeau's advisers demonstrated this beyond dispute when the voting on February 18, 1980 confirmed that they had converted the promise of a brutal raid on Alberta's oil and gas resources into victory in 75 percent of the constituencies in Ontario and Quebec. There was never any doubt that the promises would be kept: 86 percent of the 147 members of the Liberal caucus that brought in the National Energy Program were elected in the two central provinces. In the election of 1980 the resources of the western provinces were simply a currency of political trade.

Ottawa refuses to acknowledge, when it buys votes in Central Canada with oil and gas from the producing provinces, that it is bidding with irreplaceable western assets. This is morally unacceptable nationally, economically disastrous regionally. Politically, as 1980 demonstrated, it can win an election. It can also concurrently dismember a nation.

25X1

---

The Tories, however, are perceived by many Ontarians to favor Western interests. The Tory budget in December 1979, which called for moving domestic energy prices closer to world levels, stung Ontario's consumers, enhancing the Liberals' election promise to shelter Canadians from the full impact of escalating world energy prices. The budget, according to the *Toronto Globe and Mail*, also alienated the province's Conservative government and caused its powerful election machine to remain largely on the sidelines during the ensuing election. In addition, the Tories lost votes in metropolitan Toronto because of proposed reductions in social spending. The combination was devastating: the Tories lost eight of their 12 seats in Toronto and 19 of their 57 seats province wide (see table 2).

Because of the Ontario factor, we believe Mulroney's Tories will not adopt policies significantly different from those implemented by the Liberals since 1963. To win back Ontario seats lost to the Liberals in 1980, the Tories probably will need to keep most of the NEP and maintain federal social spending at present levels. These guidelines probably will permit the Tories to recapture some Ontario seats, gains which are essential if the party is to elect a majority government.

25X1

25X1

Confidential

**Confidential**

**Table 2**  
**Federal Election Results in Ontario**  
**and Metropolitan Toronto, 1979 and 1980**

Party	1979			1980		
	Vote	Share of Total Vote (percent)	Number of Seats	Vote	Share of Total Vote (percent)	Number of Seats
<b>Ontario <sup>a</sup></b>						
Liberal	1,509,926	36.4	32	1,675,519	41.9	52
Conservative	1,732,717	41.8	57	1,420,436	35.5	38
New Democrat	873,182	21.1	6	874,229	21.9	5
<b>Toronto <sup>b</sup></b>						
Liberal	390,196	38.8	10	429,482	44.8	17
Conservative	394,505	39.2	12	325,833	34.0	4
New Democrat	208,174	20.7	1	191,044	19.9	2

<sup>a</sup> There were 95 federal seats in Ontario in both elections.

<sup>b</sup> There were 23 federal seats in Metropolitan Toronto in both elections.

### The Liberals: On the Upswing?

The Liberals, at least according to the Gallup Poll, have erased the 39-percentage point advantage in the polls enjoyed by the Tories last September and now have a six-point lead. Moreover, the government's control of the timing of the next election gives it an important advantage over the Tories. The present Parliament's five-year term does not expire until February 1985, but the government can call an election at its discretion simply by giving a 50-day notice.<sup>7</sup>

The Liberals also are attempting to stymie Tory policy initiatives. The government's legislative program announced last December, for example, included several measures aimed at undercutting the Conservatives:

- The government created a Ministry of Youth to promote employment opportunities for young people; Mulroney had earlier established a task force to address this question.

<sup>7</sup> Most media commentators and US Embassy officials have been predicting a late fall election since it would give the new Liberal leader—Trudeau will retire in late June—time to create an image for the voters. In addition, in British parliamentary systems, governments that run out their full five-year term are usually seen by the electorate as being afraid and are frequently defeated in the next election. The current Liberal advantage in the polls, however, may induce the new leader to call a snap election as early as this summer.

- The government pledged to maintain its average annual growth commitment to NATO of 3 percent, in real terms, in Canada's defense budget thus blunting Tory criticism of inadequate support for the Alliance.

Most recently, the Liberals introduced legislation to make federally owned corporations more accountable to Parliament, thereby depriving the Tories of a reform they intended to promote in the election.

In addition, the Liberal government apparently is about to take action that will make it difficult for Mulroney to fulfill his pledge to abrogate the NEP's 25-percent government share, or "back-in," on all oil and gas production on federal lands. According to US Embassy officials, Ottawa will soon introduce legislation to activate the Canada–Nova Scotia Offshore Energy Agreement of 1982; the government of Nova Scotia will introduce parallel enabling legislation simultaneously. The Agreement gives the province 50 percent of Ottawa's back-in share in gasfields and 25 percent of that share in oilfields. Thereafter, eliminating the "back-in" would require new legislation at both levels of government and renegotiation of the Canada–Nova Scotia Agreement—virtually an impossibility.

**Confidential**

---

**Conservative Positions on  
Key Economic Issues**

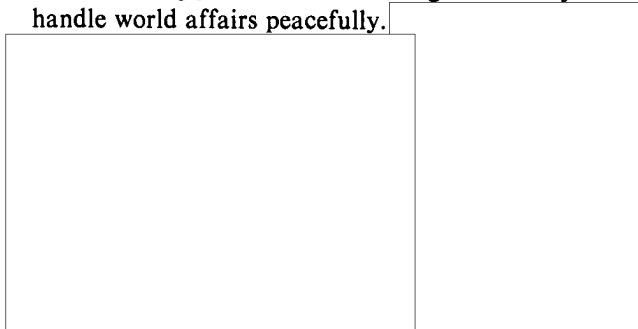
*Some points of economic policy endorsed by the Progressive Conservatives since Brian Mulroney assumed the party's leadership in June 1983 include:*

- **Federal Budget Deficits**—*The Tories promise to eliminate the current US \$24 billion deficit within five years of gaining power but have avoided promising any immediate tax increases or spending cuts that could upset interest groups.*
- **Inflation**—*The Tories believe the causes of Canadian inflation lie in the prices charged by government-regulated industries, the cost of government services, and the high rates of federal excise and sales taxes on various commodities. In power, the Tories probably would seek to control inflation by restraining federal spending and tightening monetary supply policy significantly.*
- **Productivity**—*Mulroney says the Tories are prepared to make an "all-out effort" to improve productivity by establishing tax incentives for industries undertaking on-the-job training programs and introducing high technology in the workplace.*
- **Foreign Investment**—*Mulroney has said that he will "send a clear signal around the world that Canada is a good and honorable place to do business again." The Tories have not said how they would achieve this except to say they would revise the NEP and Foreign Investment Review Agency (FIRA) once they assume power.*
- **Economic Nationalism**—*Shadow finance minister John Crosbie has said that Canadians must realize that economic nationalism is a reactionary and negative approach in the age of international interdependence. Nevertheless, Mulroney has said that in today's protectionist environment Canada would have to "work in the world as it is and cannot afford to play Boy Scout."*
- **Crown Corporations**—*During the Tory leadership race most of the candidates promised to reduce radically the number of central government-owned firms or Crown corporations. According to the Ottawa Citizen, at the end of 1982 there were 186 federal Crown corporations employing 263,000 people, about one out of every 40 workers. Since he became leader, Mulroney has concentrated on finding ways to "reform" rather than eliminate the "Crowns," advocating measures such as greater financial accountability to Parliament and sunset laws to allow Parliament to reconsider each corporation's mandate every five years. Underscoring Mulroney's apparent backsliding on the issue is his appointment of Sinclair Stevens as External Affairs Critic rather than to one of the shadow cabinet's economic posts. As president of the Treasury Board in the Clark government, Stevens was dubbed the "slasher" because of his plan to sell or dismantle 10 major Crown corporations, including Petro-Canada. The Tories also intend to use several of the state firms to rebuild Canada's economic infrastructure; they plan, for example, to continue the Liberal policy of modernizing Canada's rail system and will use Canadian National to spearhead the process.*
- **Research and Development**—*Mulroney has decried the "pathetic" state of research and development activities in Canada. He has urged Ottawa to subsidize an increase in the share of GNP devoted to research and development from the 1.1 percent spent in 1982 to 2.5 percent by 1985. He has also pledged to increase by 20 percent the budget of the National Research Council, the federal government's research and development organization, immediately after his election. In the private sector, the Tories have said that they will allow a 100-percent tax writeoff plus a 30-percent tax credit for investments made by Canada's high-technology industries. In addition, the Tories will not tax capital gains derived from the stocks of Canadian high-technology companies that are held for five years or more.*
- **Foreign Trade Policy**—*The Tories intend to promote the further development of Canada's resource-based economy in an attempt to expand the more than 30 percent of Canadian GNP that is already attributable to trade. Both Mulroney and External Affairs Critic Stevens have indicated that the federal government will use the Department of External Affairs' newly enhanced and expanded trade organization to assist the private sector in securing "a greater and freer access to world markets and higher levels of trade."*

25X1

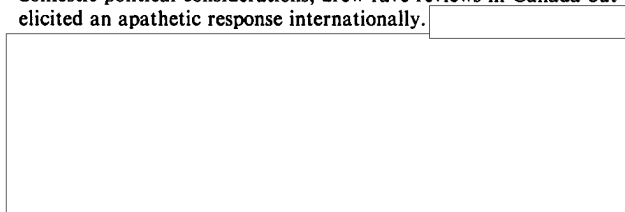
Confidential

Another potent card in the Liberals' deck is the Tories' desire to associate themselves with US foreign policy. Trudeau's peace initiative<sup>8</sup> has focused public attention on international affairs, and polls cited by the *Toronto Globe and Mail* suggest that Canadians are increasingly dubious of Washington's ability to handle world affairs peacefully.



Finally, the Liberal leadership contest probably will bump the Tories out of the media's spotlight between now and the convention in June. The race will allow the Liberals to spruce up their public image and elect a new leader—John Turner, a prominent Toronto corporate lawyer and a former Finance Minister, currently is the favorite. The Tories had been concentrating their criticisms on Trudeau's personality and uneven economic record but now, with his retirement, have lost the focus of their attack. In addition, polls have consistently shown the public more discontented with Trudeau than with the Liberals. Faced with their chief antagonist's sudden departure, and the prospect of a refreshed Liberal Party under a leader as marketable to the media as its own, the Tories, who had been expecting a coronation, must now prepare to fight an election that increasingly looks too close to call.

<sup>8</sup> Between October 1983 and March, Trudeau traveled the world in an attempt to reinvigorate disarmament discussions between the United States and the USSR. Trudeau's major recommendations were a conference of the five nuclear powers, a new Western proposal for the Mutual and Balanced Force Reduction talks, and such confidence-building measures as limits on the mobility of ICBMs and a ban on high-altitude antisatellite systems. Trudeau's peace campaign, which may have been, in part, motivated by domestic political considerations, drew rave reviews in Canada but elicited an apathetic response internationally.



### Prospects: Victory or Defeat?

We believe time is working against the Conservatives. Trailing in the polls and faced with increasing internal discord, the Tories apparently peaked too soon in the runup to the election campaign. Certain of victory if an election had been held this spring, a frustrated Mulroney can now only mark time until the Liberal leadership race plays itself out. In the interim, he probably will have to use a strong hand to coerce his factions into line—particularly regarding minority language rights. In the process of keeping order, Mulroney may deepen intraparty rifts by alienating Tories already resentful of his power.

The Tories also have bungled badly, in our estimation, by failing to detail their policies publicly. Mulroney frittered away the nine months between his election and Trudeau's decision to retire, a period in which the national media were focused on him, in making vacuous speeches and damning the Liberals. As a result, media attention has now shifted to the policy-oriented Liberal leadership race, and it is doubtful, in our opinion, whether Mulroney can wrest the spotlight back even with dramatic policy pronouncements. We believe the Liberals have stolen a march on Mulroney, forcing him henceforth to react to Liberal policy initiatives.

The Conservatives also will be kept somewhat off balance by the uncertain date of the next election. Although we continue to believe that a November election is most likely, a steady or widening Liberal lead in upcoming polls would increase the likelihood of an early election. The Canadian press recently has discussed a variety of alternative dates:

- *Late June*—to capitalize on the momentum built by the leadership campaign and its culmination.
- *Mid-August*—just after the three-province tour of Britain's Queen Elizabeth II.
- *Late September*—following Pope John Paul II's visit.

25X6

25X6

25X1

25X1

25X1

25X1  
25X1

Confidential

Confidential

Timing is up to the Liberals, and none of these dates can be ruled out. As a result, we believe the Tories will be able to do little besides keeping their campaign machinery in constant readiness in the weeks after the Liberal convention. [ ]

In sum, we believe that Mulroney and his party have squandered what should have been an insurmountable advantage. Forgoing opportunities to take the lead in policy innovation and treating the public to yet another round of intraparty warfare, the Tories must now base their hopes on Mulroney's personality and eloquence, a shaky economic recovery, and the electorate's weariness with 21 years of nearly unbroken Liberal rule. In our opinion, Tory fortunes are declining in the face of an incipient Liberal resurgence, and, by the time the election is held, Mulroney's party may have, at best, a 50-50 chance of forming a majority government. [ ]

more on fulfilling Canada's NATO responsibilities. We do not believe that a Tory Ottawa could survive politically if it came to be seen as adhering too closely to foreign policy made in Washington. As a result, a Conservative government probably would quickly assume an international outlook more in general harmony with that of its Liberal predecessors. [ ]

25X1

25X1

25X1

#### Implications for the United States

In our opinion, the policies of a Conservative majority government would produce few changes in the substance of the Canadian-US relationship. Under the Tories, Ottawa probably would adopt economic policies more favorable to the private sector and would be more circumspect in intervening in the domestic economy. On such contentious bilateral issues as the NEP and FIRA, however, we would expect only cosmetic changes. Both programs are popular with a majority of the electorate; indeed, FIRA currently is under widespread criticism from the still-influential economic nationalists for being too permissive in allowing foreign direct investment into Canada—in 1983 FIRA approved 97 percent of the investment applications submitted to it. [ ]

25X1

We believe Ottawa's foreign policy under the Tories probably would be rhetorically more supportive of the United States. Mulroney frequently has said that the United States is Canada's "greatest friend and ally" and should be given the "benefit of the doubt" by Ottawa in the international sphere. Nevertheless, budgetary constraints probably would preclude a Tory government from increasing defense spending significantly, although the Tories probably would spend

Confidential

**Page Denied**

Next 5 Page(s) In Document Denied

**Confidential**

**Confidential**